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DIRECTORATE OF  
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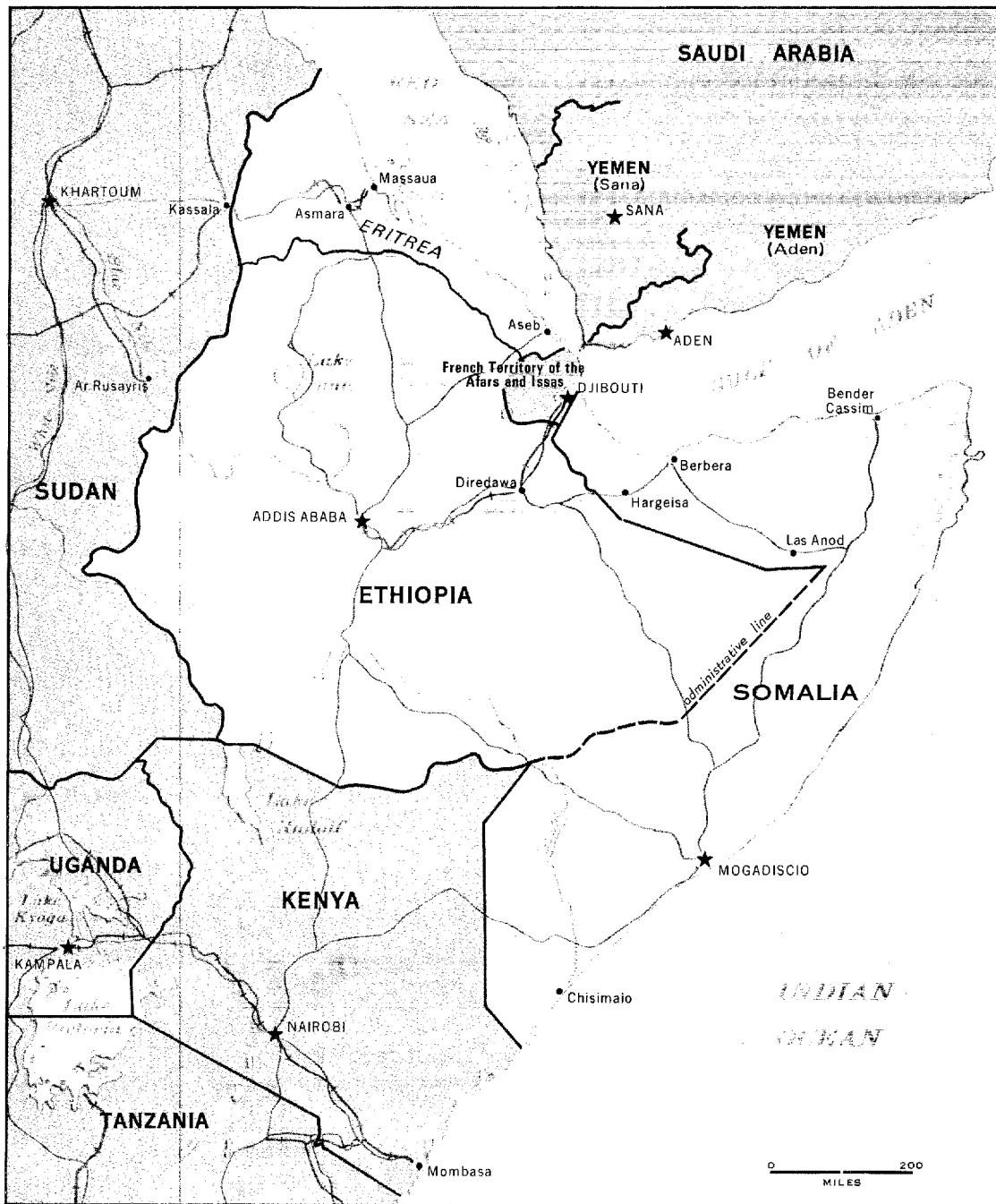
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ETHIOPIA-SOMALIA: Both governments are displaying increased concern over the military intentions of the other. Somalia has reasserted its claims to Somali-inhabited parts of Ethiopia. The arrival of increased amounts of Soviet military equipment in Somalia during 1972 has also aroused Ethiopia's suspicions. Ethiopia has moved additional troops to the border, improved military logistics, and prepared a detailed counterattack plan.

Mogadiscio has in turn reinforced its troops on the border [REDACTED]

[REDACTED] The Somalis claim that several Ethiopian patrols have crossed into Somali territory this month.

Both sides claim their military moves are defensive, and neither Addis Ababa nor Mogadiscio appears anxious for a fight. Somalia is presumably aware of Ethiopia's military superiority. Ethiopia, for its part, is probably reluctant to become involved in a clash, especially in light of the uncertainty that prevails over succession resulting from the recent brain hemorrhage suffered by the crown prince, Emperor Haile Selassie's constitutional successor. A prolonged clash with Somalia would also encourage dissident groups, such as the Eritrean Liberation Front.

Nevertheless, the presence of large numbers of troops on the border increases chances for incidents. The Somalis could also fuel tensions by supporting a renewal of guerrilla activity in Somali-inhabited parts of Ethiopia. The Ethiopians are likely to use the current situation to press the US even harder for additional military aid. [REDACTED]

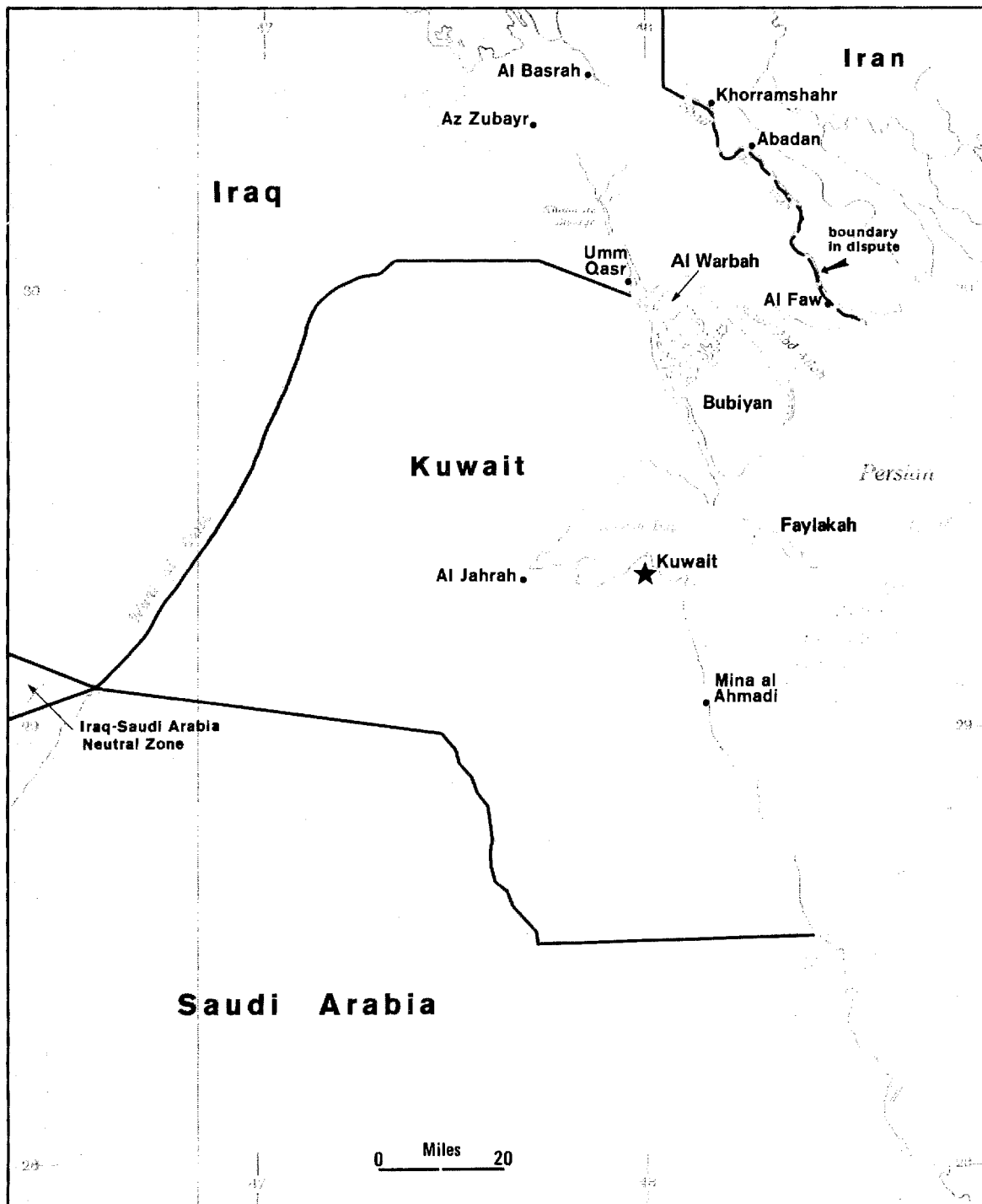
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IRAQ-KUWAIT: There is little prospect for early agreement in negotiations scheduled to get under way in Kuwait tomorrow on long-standing border problems.

The Iraqi Foreign Minister yesterday publicly demanded that the uninhabited, but strategically located, islands of Al Warbah and Bubiyan, dominating the water approaches to Iraq's new naval base at Umm Qasr, be acknowledged as Iraqi territory. The Iraqi Foreign Minister said that control of the islands is a pre-condition to any demarcation of the border.

In late March, Iraqi troops occupied a small Kuwaiti border post near Umm Qasr following a brief exchange of gunfire in which at least two Kuwaitis were killed. The Iraqi troops, probably numbering a few hundred at most, were to be withdrawn by today.

Baghdad may believe that by publicizing its demands in advance of the meeting it can improve its bargaining position. Prior to the Iraqi attack on the border post, Kuwait reportedly offered to lease the controversial islands to Iraq for 99 years provided Baghdad did not garrison them. Baghdad is reported to have rejected the offer. Although there are no signs that Iraq plans to seize the islands, if Kuwait remains adamant in refusing Iraq the right to use them to strengthen coastal defenses, an Iraqi seizure cannot be ruled out.

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ARGENTINA: The army high command has expressed deep concern over the assassination of an army colonel yesterday, but says it will not be deterred from transferring power to the Peronists.

The killing of the chief of intelligence for the Third Army Corps in Cordoba marks a major escalation of the wave of terrorism that has developed since the election last month. The assassination, following closely on a series of bombings that included naval headquarters and the kidnaping of a retired admiral and a US businessman, will provide ammunition for officers seeking a pretext for blocking the Peronists despite the junta's reaffirmation of its commitment to turn over power on 25 May.

The assassinated colonel reportedly was a confidant of General Lopez Aufranc, army chief of staff and spokesman for the constitutionalists in the military. Any weakening of General Lopez Aufranc's resolve in this regard would give those officers seeking to block the Peronists an important boost.

Most of the recent terrorist acts have been carried out by the Trotskyist-oriented People's Revolutionary Army (ERP). The ERP may believe that its objective of a thoroughgoing revolution will be as frustrated by the populist but "bourgeois" Peronists as by the current regime. It may hope to provoke a strong military reaction that would prompt radical Peronists to join in "revolutionary warfare."

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VENEZUELA: The state petroleum company is engaging Soviet tankers supplying oil to Cuba to carry petroleum from Venezuela to Western Europe, an arrangement Moscow had unsuccessfully sought to establish as early as 1968. The arrangement will allow Soviet tankers currently returning empty from Cuba to earn foreign exchange by hauling Western petroleum. Last year, Soviet tankers carried about 50 million barrels of petroleum to Cuba.

Some 360,000 barrels of petroleum products purchased from Shell Venezuela have been loaded onto three Soviet tankers for delivery to Denmark and two have already departed. Shell has contracted to deliver 2.5 million barrels of oil to Finland between May and December 1973, one half of which may be carried by Soviet tankers.

One high Venezuelan Government official noted recently that the contract was "good business for Venezuela and solves a problem for the Soviet Union--nobody loses." Moreover, the arrangement demonstrates President Caldera's independent foreign policy and comes at a crucial point in this year's presidential election campaign.

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GOLD: Private Japanese interests are importing gold for the first time since World War II, following the government's liberalization of gold import regulations on 1 April. Imports this year will probably reach 130 to 150 metric tons, roughly double the 1972 level. Although all purchases so far are being made in Western Europe, Japanese traders reportedly approached Moscow last year to buy gold directly. The new measures, designed to meet industrial needs, also permit individuals to import the equivalent of \$3,000 in gold at any one time without government approval. Japanese department stores already are selling small gold bars, and international gold markets already have taken account of the Japanese move. Rumors of an impending change in gold import laws contributed to the substantial rise in the international gold price earlier this year.

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